

SPARTA AREA SCHOOLS
Kent County, Michigan

Comprehensive Annual Financial Report

For the year ended June 30, 2006

SPARTA AREA SCHOOLS
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For the year ended June 30, 2006

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FINANCIAL SECTION

Hungerford, Aldrin,
Nichols & Carter, P.C.
CPAs AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

August 10, 2006

The Board of Education
Sparta Area Schools

We have audited the accompanying financial statements of the governmental activities, the major funds and the aggregate remaining fund information of Sparta Area Schools (the "District") as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's elected officials and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major funds and the aggregate remaining fund information of Sparta Area Schools as of June 30, 2006, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2006 on our consideration of Sparta Area Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Sparta Area Schools. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hungerford, Aldrin, Nichols & Carter, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

SPARTA AREA SCHOOLS
Management's Discussion and Analysis
June 30, 2006

As management of the Sparta Area Schools ("the District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements and Supplemental Information. The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Assets and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
 - ♦ *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
 - ♦ *Fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Basic Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data. Supplemental Information follows and includes combining and individual fund statements.

District-wide Statements

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets, and how they have changed. Net assets - the difference between the District's assets and liabilities - is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, one should consider additional non-financial factors such as changes in the District's property tax-base and the condition of school buildings and other facilities.

SPARTA AREA SCHOOLS
Management's Discussion and Analysis
June 30, 2006

In the district-wide financial statements, the District's activities are presented as follows:

- *Governmental activities:* The District's basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

Condensed District-Wide Financial Information

The Statement of Net Assets provides financial information on the District as a whole.

	<u>2006</u>	<u>2005</u>
Assets		
Current assets	\$ 30,107,294	\$ 39,854,744
Net capital assets	<u>23,150,766</u>	<u>11,628,753</u>
Total Assets	<u>53,258,060</u>	<u>51,483,497</u>
Liabilities		
Current liabilities	5,313,275	3,770,895
Long-term liabilities	<u>37,905,833</u>	<u>38,829,073</u>
Total Liabilities	<u>43,219,108</u>	<u>42,599,968</u>
Net Assets		
Invested in capital assets, net of related debt	8,185,109	6,518,871
Restricted	96,366	144,997
Unrestricted	<u>1,757,477</u>	<u>2,219,661</u>
Total Net Assets	<u>\$ 10,038,952</u>	<u>\$ 8,883,529</u>

The results of the fiscal year's operations for the District as a whole are presented in the Statement of Activities, which shows the change in total net assets for the year.

SPARTA AREA SCHOOLS
Management's Discussion and Analysis
June 30, 2006

The Statement of Activities presents changes in net assets from operating results:

	2006	2005
Program Revenues		
Charges for services	\$ 971,538	\$ 835,397
Operating grants	4,285,141	4,222,204
General Revenues		
Property taxes	4,677,193	4,498,411
State school aid, unrestricted	17,962,115	17,632,957
Other	1,246,140	1,993,716
Total Revenues	29,142,127	29,182,685
Expenses		
Instruction	15,857,135	15,128,529
Supporting services	8,398,980	8,106,785
Community services	249,388	183,086
Food service	782,659	770,411
Athletics	595,214	560,492
Other	53,109	74,294
Interest on long-term debt	1,782,554	1,674,741
Depreciation – unallocated	267,665	370,587
Total Expenses	27,986,704	26,868,926
Increase in net assets	1,155,423	2,313,759
Net Assets - Beginning of Year	8,883,529	6,569,770
Net Assets - End of Year	\$ 10,038,952	\$ 8,883,529

Financial Analysis of the District as a Whole

The District's financial position is the product of many factors.

The District's total revenues remained roughly the same at \$29.14 million. Property taxes and unrestricted state aid accounted for most of the District's revenues, contributing about 78 percent of every dollar raised. Another 15 percent came from state and federal aid for specific programs and the remainder from fees charged for services, interest earnings, donations and miscellaneous sources.

The total cost of all programs and services increased 4 percent to \$27.99 million, due to increased instruction and supporting services costs and additional interest on long-term debt. The District's expenses are predominantly related to instructing, caring for (pupil services) and transporting students (64 percent). The District's administrative and business activities accounted for 8 percent of total costs. Operation and maintenance expenses accounted for 7 percent of the total costs. It should be noted that the District absorbed considerable cost increases

SPARTA AREA SCHOOLS
Management's Discussion and Analysis
June 30, 2006

during the 2006 fiscal year in the areas of health insurance premiums, utilities, other District insurance and compensation for employees. However, the District also made staffing reductions at the end of the 2005 fiscal year. The net result was a slight increase in total General Fund expenditures for the 2006 fiscal year.

Total revenues surpassed expenses, increasing net assets by \$1,155,423 over last year, due to increased categorical state aid reimbursements for special education.

The District has been able to continue to balance the General Fund budget through a series of reductions and cost savings measures that include:

- Reductions in instructional staff through attrition.
- Reductions in support personnel in a variety of areas throughout the District.
- Reductions in administrative personnel in the District.
- The current trend to reduce costs will continue. At the present time the District is working with other area districts to create collaborative arrangements whereby districts can become more efficient in a number of areas to include student transportation, purchasing, the use of personnel, delivery of instruction, the use of technology, etc.

Fund Financial Statements

The *fund financial statements* provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

The District utilizes two kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information following the governmental funds' statements explain the relationship (or differences) between them.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as Student Activities Funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

SPARTA AREA SCHOOLS
Management's Discussion and Analysis
June 30, 2006

Financial Analysis of the District's Funds

The District uses funds to record and analyze financial information. Sparta Area School's funds are described as follows:

Major Funds

General Fund

The General Fund is the District's primary operating fund. The General Fund had total revenues of \$24,340,884, total other financing sources of \$30,000, total expenditures of \$23,993,459, and total other financing uses of \$408,747. It ended the fiscal year with a fund balance of \$2,726,795, down from \$2,758,117 as of June 30, 2005. The decrease in fund balance of \$31,322 can be related to a number of factors which include:

- Increases in employee and health care costs.
- Increases in utility costs.

2004 Construction Fund

The District issued \$34,410,000 in capital improvement bonds in 2004 to finance the construction of a new high school, which is accounted for in the 2004 Construction Fund. Current year investment earnings totaled \$856,855, and donations to the project were \$10,000. Architect fees, construction manager and building costs totaled \$11,922,289, leaving a remaining fund balance at June 30, 2006 of \$23,115,265 with which to complete the projects over subsequent fiscal years.

Nonmajor Funds

Special Revenue Funds

The District operates two Special Revenue Funds, for the food service and athletic programs. Total revenues and other financing sources were \$1,381,877, with total expenditures and other financing uses of \$1,375,049. The ending fund balance was \$149,394, all of which is attributable to the Food Service Fund.

Debt Service Funds

The District operates five Debt Service Funds. Total revenues and other financing sources were \$2,846,513 and total expenditures and other financing uses were \$2,980,617. The ending fund balances in the Debt Service Funds totaled \$110,760.

Capital Projects Fund

There is one nonmajor Capital Projects Fund, the Building and Site Sinking Fund, incorporated into the financial statements of the District. Total revenues were \$349,913. Total expenditures were \$1,478 and other financing uses (transfers for debt service payments) totaled \$267,968. The ending fund balance was \$275,972.

Fiduciary Funds

The Student Activity Fund is operated as an Agency Fund of the District. The assets of this fund is being held for the benefit of the District's students. Balances on hand at June 30, 2006 totaled \$459,374.

SPARTA AREA SCHOOLS
Management's Discussion and Analysis
June 30, 2006

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget three times. These budget amendments fall into the following categories:

- Changes made in November to account for the final student enrollment that determines how much foundation grant state school aid will be received during the fiscal year.
- Changes made in March to account for prior year state aid adjustments.
- Final changes made in June for increases in appropriations to prevent budget overruns.
- Although the District's final budget for the General Fund anticipated expenditures would exceed revenues by \$409,778, the actual results for the year shows a \$31,322 decrease in fund balance.
- Actual revenues were \$154,383 higher than budgeted, due largely to interdistrict sources that were under estimated in the budget.
- Actual expenditures were \$238,820 below budget, due primarily to various reductions made during the year, the delaying of expenditures to future years, and conservative spending practices throughout the District.

Capital Asset and Debt Administration

Capital Assets

By the end of 2006, the District had invested \$33.27 million in a broad range of capital assets, including land and land improvements, school buildings, athletic facilities, computer equipment, school buses, and administrative offices. This amount represents an increase of \$11,990,957 from June 30, 2005, due mainly to the construction in progress on the high school project. More detailed information about capital assets can be found in Note E in the Notes to Basic Financial Statements.

The net book value of District assets at June 30, 2006 are as follows:

Land	\$ 2,077,206
Construction in progress	12,974,194
Land improvements	462,524
Buildings and additions	7,069,385
Furniture and equipment	137,919
Vehicles	<u>429,538</u>
Net Capital Assets	<u>\$ 23,150,766</u>

Long-Term Debt

At year end, the District had \$39.1 million in general obligation bonds and other long-term debt outstanding – a decrease of \$791,000 from last year.

- The District continued to pay down its debt, retiring \$1.19 million of outstanding bonds.

SPARTA AREA SCHOOLS
Management's Discussion and Analysis
June 30, 2006

The District's other obligations include early retirement incentive and accumulated sick leave. We present more detailed information about our long-term liabilities in Note F to the Notes to Basic Financial Statements.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the following existing circumstances that could significantly affect its financial health in the future:

- The District effectively negotiated a two-year contract with our teacher (SEA) union and support employee (SESPA) union at the end of the 2006 fiscal year. During this contract we were able to increase salaries at very modest levels. We were also able to change health insurance plans which did reduce our overall health insurance costs. We hope to successfully negotiate salaries with our teachers and support groups for next year.
- The District has experienced large increases in health insurance premium costs over the past three years. These increases have averaged in excess of 17%, amounting to annual increases in health insurance costs of over \$400,000. The District must continue to work with all of our employee groups in an attempt to find viable solutions as related to health insurance. The District cannot continue to support the types of increases in health insurance premiums that have now occurred over the past several years.
- Another area of substantial concern is the retirement rate school districts must pay on employee salaries. Over the past several years schools have experienced substantial increases in this area. We must continue to work with our State Legislature to get some reform in the Michigan School Employee Retirement System.
- Enrollment continues to be of some concern to the District. Recently we have seen some decline on an annual basis. Much of the decline can be attributed to a decline in our fall migrant student population.
- The current state of the Michigan economy has created a financial hardship on most schools in the State. School districts will receive a modest increase in State aid during the 2006-07 school year of \$175 per student. However, over the past three years we have experienced no increases and for two of those years we experienced reductions from the State. Unless this trend quickly changes, our financial position will worsen, causing additional budget reductions, which will impact the programs and services we provide for our students.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Superintendent's Office, Sparta Area Schools, 465 S. Union St., Sparta, Michigan 49345.

BASIC FINANCIAL STATEMENTS

SPARTA AREA SCHOOLS
Statement of Net Assets
June 30, 2006

	<u>Governmental Activities</u>
Assets	
Current Assets	
Cash equivalents, deposits and investments (Note B)	\$ 25,904,699
Taxes receivable (Note C)	29,559
Accrued interest receivable	241,133
Due from other governmental units (Note C)	3,730,483
Inventory (Note A)	15,920
Prepaid expenses	185,500
Total Current Assets	<u>30,107,294</u>
Noncurrent Assets	
Capital assets (Note E)	33,273,309
Less accumulated depreciation	(10,122,543)
Total Noncurrent Assets	<u>23,150,766</u>
Total Assets	<u>53,258,060</u>
Liabilities	
Current Liabilities	
Accounts payable	1,857,321
Due to other governmental units	486,158
Accrued interest payable	290,366
Salaries payable	1,107,149
Deferred revenue	63,421
Current portion of long term obligations	1,508,860
Total Current Liabilities	<u>5,313,275</u>
Noncurrent Liabilities (Notes A, F)	
General obligation bonds payable	37,460,000
Durant non-plaintiff bonds payable	464,246
Early retirement incentive	1,014,070
Accumulated sick leave	134,201
Unamortized bond premium	342,176
Current portion of long-term obligations	(1,508,860)
Total Noncurrent Liabilities	<u>37,905,833</u>
Total Liabilities	<u>43,219,108</u>
Net Assets	
Invested in capital assets, net of related debt	8,185,109
Restricted for:	
Debt service	(179,606)
Capital projects	275,972
Unrestricted	1,757,477
Total Net Assets	<u><u>\$ 10,038,952</u></u>

See accompanying notes to basic financial statements.

SPARTA AREA SCHOOLS
Statement of Activities
For the year ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants	
Governmental Activities				
Instruction	\$ 15,857,135	\$ 44,165	\$ 3,517,224	\$(12,295,746)
Supporting services	8,398,980	39,033	322,260	(8,037,687)
Community services	249,388	310,712	-	61,324
Food service	782,659	422,729	390,445	30,515
Athletics	595,214	154,899	-	(440,315)
Other	53,109	-	-	(53,109)
Interest expense	1,782,554	-	55,212	(1,727,342)
Depreciation - unallocated	267,665	-	-	(267,665)
Total Governmental Activities	\$ 27,986,704	\$ 971,538	\$ 4,285,141	(22,730,025)
General Revenues				
Taxes:				
Property taxes, levied for general operations				1,835,874
Property taxes, levied for debt service				2,501,754
Property taxes, levied for capital improvements				339,565
State school aid, unrestricted				17,962,115
Interest and investment earnings				978,384
Other				267,756
Total General Revenues				23,885,448
Change in Net Assets				1,155,423
Net Assets - Beginning of Year				8,883,529
Net Assets - End of Year				\$ 10,038,952

See accompanying notes to basic financial statements.

SPARTA AREA SCHOOLS
Balance Sheet
Governmental Funds
June 30, 2006

	General	2004 Construction	Nonmajor	Total
Assets				
Cash equivalents, deposits and investments (Note B)	\$ 953,679	\$24,426,246	\$ 524,774	\$25,904,699
Taxes receivable (Note C)	22,599	-	6,960	29,559
Accrued interest receivable	-	241,133	-	241,133
Due from other governmental units (Note C)	3,724,805	-	5,678	3,730,483
Inventory (Note A)	4,953	-	10,967	15,920
Total Assets	\$4,706,036	\$24,667,379	\$ 548,379	\$29,921,794
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 304,097	\$ 1,552,114	\$ 1,110	\$ 1,857,321
Due to other governmental units	486,158	-	-	486,158
Salaries payable	1,107,149	-	-	1,107,149
Deferred revenue	81,837	-	11,143	92,980
Total Liabilities	1,979,241	1,552,114	12,253	3,543,608
Fund Balances				
Reserved for:				
Debt service	-	-	110,760	110,760
Capital outlay	-	23,115,265	275,972	23,391,237
Unreserved:				
Undesignated, reported in:				
General fund	2,726,795	-	-	2,726,795
Special revenue funds	-	-	149,394	149,394
Total Fund Balances	2,726,795	23,115,265	536,126	26,378,186
Total Liabilities and Fund Balances	\$4,706,036	\$24,667,379	\$ 548,379	\$29,921,794

See accompanying notes to basic financial statements.

SPARTA AREA SCHOOLS
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2006

Total governmental fund balances			\$ 26,378,186
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$33,273,309 and accumulated depreciation is \$10,122,543.			
			23,150,766
Net bond premium and refunding and issuance costs are not expensed but are amortized over the life of the new bond issue.			
			(156,676)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:			
General obligation bonds		\$(37,460,000)	
Durant non-plaintiff bonds		(464,246)	
Early retirement incentive		(1,014,070)	
Accumulated sick leave		(134,201)	
			(39,072,517)
Accrued interest is not included as a liability in governmental funds.			
			(290,366)
Deferred revenue recognized as revenue in the full accrual statements:			
Property taxes			29,559
Total net assets - governmental activities			\$ 10,038,952

See accompanying notes to basic financial statements.

SPARTA AREA SCHOOLS
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2006

	General	2004 Construction	Nonmajor	Total
Revenues				
Local sources	\$ 2,539,285	\$ 866,855	\$ 3,455,931	\$ 6,862,071
State sources	18,671,002	-	108,162	18,779,164
Federal sources	1,166,983	-	337,495	1,504,478
Interdistrict sources	1,963,614	-	-	1,963,614
Total Revenues	<u>24,340,884</u>	<u>866,855</u>	<u>3,901,588</u>	<u>29,109,327</u>
Expenditures				
Current:				
Instruction	15,418,569	-	-	15,418,569
Supporting services	8,325,502	-	-	8,325,502
Community services	249,388	-	-	249,388
Food service	-	-	781,403	781,403
Athletics	-	-	563,646	563,646
Capital outlay	-	11,922,289	1,478	11,923,767
Debt service:				
Principal repayment	-	-	1,193,057	1,193,057
Interest and fiscal charges	-	-	1,787,560	1,787,560
Total Expenditures	<u>23,993,459</u>	<u>11,922,289</u>	<u>4,327,144</u>	<u>40,242,892</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>347,425</u>	<u>(11,055,434)</u>	<u>(425,556)</u>	<u>(11,133,565)</u>
Other Financing Sources (Uses)				
Transfers in	30,000	-	676,715	706,715
Transfers out	(408,747)	-	(297,968)	(706,715)
Total Other Financing Sources (Uses)	<u>(378,747)</u>	<u>-</u>	<u>378,747</u>	<u>-</u>
Net Change in Fund Balances	<u>(31,322)</u>	<u>(11,055,434)</u>	<u>(46,809)</u>	<u>(11,133,565)</u>
Fund Balances, Beginning of Year	<u>2,758,117</u>	<u>34,170,699</u>	<u>582,935</u>	<u>37,511,751</u>
Fund Balances, End of Year	<u>\$ 2,726,795</u>	<u>\$23,115,265</u>	<u>\$ 536,126</u>	<u>\$26,378,186</u>

See accompanying notes to basic financial statements.

SPARTA AREA SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2006

Net change in fund balances - total governmental funds \$ (11,133,565)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is capitalized and the cost is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

Capital outlays	\$ 11,990,957	
Depreciation expense	<u>(479,145)</u>	11,511,812

As some delinquent personal property taxes will not be collected for several years after the District's fiscal year ends, they are not considered "available" revenues in the governmental funds, and are instead counted as deferred tax revenues. They are, however, recorded as revenues in the Statement of Activities. (35,635)

Net bond refunding costs are amortized over the life of the new bond issue on the Statement of Activities. 6,602

In the Statement of Activities, only the gain on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale(s) increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the assets sold/retired. 10,202

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities:
Repayment of bonds 1,193,057

Interest on long-term liabilities in the Statement of Activities differs from the amount reported on the governmental funds because interest is recorded as an expenditure in the funds when it is due and paid, and thus requires the use of current financial resources. In the Statement of Activities however, interest expense is recognized as the interest accrues regardless of when it is paid. 5,006

In the Statement of Net Assets, early retirement incentive and accumulated sick leave are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits earned (\$685,167) exceeded the amounts used/paid (\$283,112). (402,055)

Total changes in net assets - governmental activities \$ 1,155,423

See accompanying notes to basic financial statements.

SPARTA AREA SCHOOLS
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Local sources	\$ 2,368,909	\$ 2,560,263	\$ 2,539,285	\$ (20,978)
State sources	18,612,875	18,656,844	18,671,002	14,158
Federal sources	1,129,688	1,154,957	1,166,983	12,026
Interdistrict sources	1,812,805	1,814,437	1,963,614	149,177
Total Revenues	<u>23,924,277</u>	<u>24,186,501</u>	<u>24,340,884</u>	<u>154,383</u>
Expenditures				
Current:				
Instruction:				
Basic programs	11,620,217	11,689,967	11,609,491	80,476
Added needs	3,426,123	3,581,790	3,521,572	60,218
Adult education services	315,907	296,280	287,506	8,774
Supporting services:				
Pupil services	712,415	1,712,544	1,726,105	(13,561)
Instructional staff services	704,667	700,860	692,501	8,359
General administrative services	567,356	553,602	535,184	18,418
School administrative services	1,516,157	1,487,531	1,482,847	4,684
Business services	245,480	301,306	294,015	7,291
Operation and maintenance services	1,879,987	1,846,505	1,817,258	29,247
Pupil transportation services	1,159,154	1,626,413	1,592,845	33,568
Central services	185,000	181,880	184,747	(2,867)
Community services	216,140	239,662	249,388	(9,726)
Interdistrict	1,513,000	13,939	-	13,939
Total Expenditures	<u>24,061,603</u>	<u>24,232,279</u>	<u>23,993,459</u>	<u>238,820</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>(137,326)</u>	<u>(45,778)</u>	<u>347,425</u>	<u>393,203</u>
Other Financing Sources (Uses)				
Transfers in	30,000	30,000	30,000	-
Transfers out	(373,000)	(394,000)	(408,747)	(14,747)
Total Other Financing Sources (Uses)	<u>(343,000)</u>	<u>(364,000)</u>	<u>(378,747)</u>	<u>(14,747)</u>
Net Change in Fund Balances	<u>(480,326)</u>	<u>(409,778)</u>	<u>(31,322)</u>	<u>378,456</u>
Fund Balances, July 1	<u>2,758,117</u>	<u>2,758,117</u>	<u>2,758,117</u>	<u>-</u>
Fund Balances, June 30	<u><u>\$ 2,277,791</u></u>	<u><u>\$ 2,348,339</u></u>	<u><u>\$ 2,726,795</u></u>	<u><u>\$ 378,456</u></u>

See accompanying notes to basic financial statements.

SPARTA AREA SCHOOLS
Fiduciary Fund
Statement of Fiduciary Assets and Liabilities
June 30, 2006

Assets

Cash equivalents, deposits and investments (Note B)	<u>\$ 459,374</u>
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Liabilities

Due to student groups	<u>\$ 459,374</u>
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See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

SPARTA AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Note A – Summary of Significant Accounting Policies

Sparta Area Schools was organized under the School Code of the State of Michigan and services a population of approximately 2,973 students. The District is governed by an elected Board of Education consisting of seven members and administered by a Superintendent who is appointed by the aforementioned Board. The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, pre-school programs, athletic activities, special education, community services and general administrative services. The Board of Education also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

The financial statements of Sparta Area Schools (the “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the District’s accounting policies are described below.

1. Reporting Entity

The financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District’s financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

2. District-Wide and Fund Financial Statements

District-Wide Financial Statements - The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) present financial information about the District as a whole. The reported information includes all of the nonfiduciary activities of the District. The District does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the District. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. The District does not have any business-type activities.

The Statement of Net Assets is presented on the classified basis and is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services

SPARTA AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The General and 2004 Construction Capital Projects Funds are the District's major funds. Non-major funds are aggregated and presented in a single column.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the district-wide level. Reconciliations between the two sets of statements are provided in separate statements.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Deferred revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the fiduciary fund financial statement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenues in accordance with state law and accounting principles generally accepted in the United States of America.

SPARTA AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of a school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund—The General Fund is the general operating fund of a school district. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

Special Revenue Funds—Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

School Service Funds—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Funds maintained by the District are the Food Service and Athletics Funds.

Debt Service Funds—Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt (bonds, notes, loans, leases and school bond loan) principal, interest, and related costs.

Capital Projects Funds—Capital Projects Funds are used to record bond proceeds, property tax revenues or other revenues and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The funds are retained until the purpose for which the funds were created has been accomplished.

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of Section 1351a of the State of Michigan's School Code. For capital project activities funded with sinking fund millage, the District has complied with the applicable provisions of Section 1212 (I) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by a school district in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Fiduciary Fund net assets and results of operations are not included in the district-wide financial statements. Fiduciary funds are reported using the economic resources measurement focus.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student groups for school and school related purposes. The funds are segregated and held in trust for the students.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the district-wide and fiduciary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

SPARTA AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted as they are needed.

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. Sparta Area Schools has also adopted budgets for its Special Revenue Funds. A school district's General Appropriations Act (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at the end of the fiscal year.

Sparta Area Schools utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent to establish proposed operating budgets for the fiscal year commencing the following July 1.
- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.
- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.
- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original General and Special Revenue Funds budgets were amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

6. Investments

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

SPARTA AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

7. Inventory

Inventories are valued at cost (first-in, first-out). Inventories of the General Fund consist of teaching and custodial supplies. Inventories of the Food Service Fund consist of food, unused commodities and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund.

8. Capital Assets

Capital assets, which include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Land improvements, buildings and additions, vehicles and furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	10-20 years
Buildings and additions	40-50 years
Vehicles	5-10 years
Furniture and equipment	3-10 years

9. Long-Term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported at the total amount of bonds issued.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

10. Early Retirement Incentive/Accumulated Sick Leave

Early retirement incentive and accumulated sick leave at June 30, 2006 has been computed and recorded in the basic financial statements of the District. Eligible District employees who select early retirement are entitled to a termination leave payment based on their age and years of service. Employees who leave the District are also entitled to reimbursement for a portion of their unused sick days. At June 30, 2006, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for early retirement incentive and accumulated sick leave amounted to \$1,014,070 and \$134,201, respectively.

SPARTA AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

11. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for expenditures or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

12. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

13. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note B – Cash Equivalents, Deposits and Investments

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this State under the laws of this State or the United States.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- United States government or Federal agency obligation repurchase agreements.
- Banker's acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.
- Mutual funds composed entirely of investment vehicles which are legal for direct investment by a school district in Michigan.
- Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district in Michigan.

SPARTA AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Balances at June 30, 2006 related to cash equivalents, deposits and investments are detailed in the Basic Financial Statements as follows:

Statement of Net Assets:	
Governmental activities	\$25,904,699
Fiduciary Funds:	
Agency Fund	<u>459,374</u>
	<u><u>\$26,364,073</u></u>

Cash Equivalents

Depositories actively used by the District during the year are detailed as follows:

1. Choice One Bank

Cash equivalents consist of bank public funds checking accounts.

Balances at June 30, 2006 related to cash equivalents are detailed in the Basic Financial Statements as follows:

Governmental Funds	\$ 2,259,811
Fiduciary Funds	<u>459,374</u>
	<u><u>\$ 2,719,185</u></u>

Custodial credit risk

Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to the District. Protection of District cash equivalents is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the District's cash equivalents and deposits was \$2,719,185 and the bank balance was \$3,175,065. Of the bank balance, \$100,000 was covered by federal depository insurance and \$3,075,065 was uninsured.

Investments

As of June 30, 2006 the District had the following investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Investment Pool Accounts:		
Michigan Liquid Asset Fund	\$ 2,373,398	N/A
U.S. Agency Investments:		
FHLMC	10,345,106	0.4536
FNMA	8,483,122	0.7889
FHLB	<u>2,443,262</u>	0.4697
	<u>\$ 23,644,888</u>	
Portfolio Weighted Average Maturity		<u><u>0.6218</u></u>

SPARTA AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District minimizes custodial credit risk by limiting investments to the types of securities allowed by law. The District has a custodial credit risk exposure of \$21,271,490 in its U.S. Agency investments because the securities are uninsured, unregistered and held by the District's brokerage firm which is also the counterparty for these securities.

Credit Risk

The District's investments in the Michigan Liquid Asset Fund and Dreyfus Treasury Cash Management Fund investment pools were unrated.

Interest Rate Risk

The District minimizes interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market, and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Concentration of Credit Risk

The District's investment policy places no restrictions on the amount or percentage that may be invested in any one type of security. More than 5 percent of the District's investments are in FHLMC (44%), FNMA (36%) and FHLB (10%).

Foreign Currency Risk

The District is not authorized to invest in investments which have this type of risk.

Note C – State School Aid/Property Taxes

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts. The amount of 2005 ad valorem State Education Taxes generated within the Sparta Area School District, and paid to the State of Michigan, totaled \$2,357,868.

These additional State revenues pass through to Michigan school districts in the form of a per pupil "Foundation Allowance" paid on a "blended count" of District pupil membership in February, 2005 and September, 2005. The 2005-06 "Foundation Allowance" for Sparta Area Schools was \$6,875 for 2,828 "Full Time Equivalent" students, generating \$18,648,349 in state aid payments to the District, of which \$3,362,595 was paid to the District in July and August, 2006 and included in "Due From Other Governmental Units" of the General and Food Service Special Revenue Funds of the District.

Property taxes for the District are levied July 1 and December 1 under a split-levy system by the Townships of Algoma, Alpine, Sparta, Tyrone, Chester and Wright and the Village of Sparta. The taxes are then collected by each governmental unit and remitted to the District. The County of Kent, through its Delinquent Tax Revolving Fund, advances all delinquent real property taxes at March 1 to the District each year prior to June 30. Delinquent personal property taxes receivable are detailed as follows:

SPARTA AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Tax Year	General	Debt Service	Building and Site	Total
2005	\$ 6,815	\$ 2,377	\$ 324	\$ 9,516
2004	992	354	51	1,397
2003	14,792	2,841	1,013	18,646
	\$ 22,599	\$ 5,572	\$ 1,388	\$ 29,559

Taxes receivable are offset by deferred revenue in the General, Debt Service and Building and Site Funds of the District. Taxes uncollected after three years from the date of levy are written off the books of the District.

Section 1211(1) of 1993 PA 312 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, whichever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill "Local Enhancement Millage" which must be shared between all local districts in each respective county intermediate district.

Sparta Area Schools electors previously approved a ten year operating millage extension in June 1996 for the 18 mill non-homestead property tax.

The District levied 6.28 mills in 2005 for debt service purposes and .8552 mills for the building and site (sinking) fund, applied on all taxable property in the District.

Taxable property in the District is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases will be limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A, taxable property is now divided into two categories: homestead and non-homestead.

Homestead property is exempt from the 18 mill "School Operating" tax. It is not exempt from the 6 mill "State Education" tax, any voted "Local Enhancement Millage", nor any additional voted millage for the retirement of debt.

Non-homestead property is considered to be all property not qualifying for a homestead exemption, which includes all commercial and industrial property. Non-homestead property is subject to all District levies.

Note D – Interfund Transfers

Transfers between funds during the year ended June 30, 2006 were as follows:

	Transfers In	Transfers Out
General Fund		
Special Revenue Funds:		
Food Service Fund	\$ 30,000	\$ —
Athletics Fund	—	408,747
Total General Fund	30,000	408,747

SPARTA AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

	<u>Transfers In</u>	<u>Transfers Out</u>
Special Revenue Funds		
Food Service Fund:		
General Fund	\$ —	\$ 30,000
Athletics Fund:		
General Fund	408,747	—
Total Special Revenue Funds	<u>408,747</u>	<u>30,000</u>
Debt Service Funds		
2000 Debt Service Fund:		
Capital Projects Fund:		
Building & Site Fund	149,126	—
2001 Debt Service Fund:		
Capital Projects Fund:		
Building & Site Fund	118,842	—
Total Debt Service Funds	<u>267,968</u>	<u>—</u>
Capital Projects Funds		
Building and Site Fund:		
2000 Debt Service Fund	—	149,126
2001 Debt Service Fund	—	118,842
Total Capital Projects Funds	<u>—</u>	<u>267,968</u>
Total All Funds	<u>\$ 706,715</u>	<u>\$ 706,715</u>

The Food Service Fund transfer to the General Fund was made to allocate indirect costs for the fiscal year. The General Fund transfer to the Athletic fund was made to pay the General Fund's share of support for the athletic program for the fiscal year. The Building and Site Fund transfers to the Debt Service Funds were made to pay scheduled debt service principal and interest payments due in the fiscal year.

Note E – Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Balances July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2006</u>
Capital assets not depreciated:				
Land	\$ 2,002,460	\$ 74,746	\$ —	\$ 2,077,206
Construction in progress	1,126,651	11,847,543	—	12,974,194
Capital assets being depreciated:				
Land improvements	1,025,705	—	—	1,025,705
Buildings and additions	14,370,633	—	—	14,370,633
Furniture and equipment	1,011,352	—	—	1,011,352
Vehicles	1,872,465	68,668	126,914	1,814,219
Totals at historical cost	<u>21,409,266</u>	<u>\$11,990,957</u>	<u>\$ 126,914</u>	<u>33,273,309</u>

SPARTA AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

	Balances July 1, 2005	Additions	Deductions	Balances June 30, 2006
Less accumulated depreciation for:				
Land improvements	518,420	\$ 44,761	\$ —	563,181
Buildings and additions	7,056,250	244,998	—	7,301,248
Furniture and equipment	811,727	61,706	—	873,433
Vehicles	1,394,116	127,680	137,115	1,384,681
Total accumulated depreciation	9,780,513	\$ 479,145	\$ 137,115	10,122,543
Net Capital Assets	\$ 11,628,753			\$ 23,150,766

Depreciation expense was charged to District activities as follows:

Governmental activities:	
Instruction	\$ 30,272
Supporting services	148,538
Food service	1,102
Athletics	31,568
Unallocated	267,665
	<u>\$ 479,145</u>

Note F – Long-term Debt

Amounts available and to be provided for outstanding long-term debt at June 30, 2006 are summarized as follows:

	General Obligation Bonds	Durant Non-plaintiff Bonds	Early Retirement Incentive	Accumulated Sick Leave	Total
Amount Available For Retirement Of Long-Term Debt					
Debt Service Funds	\$ 110,760	\$ —	\$ —	\$ —	\$ 110,760
Amounts To Be Provided For Retirement Of Long-Term Debt					
State of Michigan	—	464,246	—	—	464,246
General Fund	—	—	1,014,070	134,201	1,148,271
Debt Service Funds	37,349,240	—	—	—	37,349,240
Total Amounts Available and To Be Provided	\$ 37,460,000	\$ 464,246	\$ 1,014,070	\$ 134,201	\$ 39,072,517

SPARTA AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Changes in long-term debt for the year ended June 30, 2006 are summarized as follows:

	Debt Outstanding July 1, 2005	Debt Added	Debt Retired	Debt Outstanding June 30, 2006
General obligation bonds:				
May 1, 2000	\$ 630,000	\$ —	\$ 115,000	\$ 515,000
May 1, 2001	545,000	—	95,000	450,000
March 24, 2003	3,195,000	—	775,000	2,420,000
July 14, 2004	34,245,000	—	170,000	34,075,000
Durant non-plaintiff bonds:				
November 13, 1998	502,303	—	38,057	464,246
Early retirement incentive	607,096	646,245	239,271	1,014,070
Accumulated sick leave	139,120	38,922	43,841	134,201
	<u>\$ 39,863,519</u>	<u>\$ 685,167</u>	<u>\$ 1,476,169</u>	<u>\$ 39,072,517</u>

Long-term bonds outstanding at June 30, 2006 are comprised of the following:

	Final Maturity Dates	Interest Rates	Outstanding Balance	Amount Due Within One Year
General Obligation Bonds				
\$1,100M Building and Site May 1, 2000:				
Annual maturities of \$120M to \$140M	May 1, 2010	5.25 – 5.50	\$ 515,000	\$ 120,000
\$900M Building and Site May 1, 2001:				
Annual maturities of \$105M to \$120M	May 1, 2010	4.15 – 4.50	450,000	105,000
\$4,815M Refunding March 24, 2003:				
Annual maturities of \$790M to \$825M	May 1, 2009	2.00 – 3.00	2,420,000	790,000
\$34,410M Building & Site July 14, 2004:				
Annual maturities of \$200M to \$2,075M	May 1, 2030	2.50 – 5.00	34,075,000	200,000
Durant Non-plaintiff Bonds				
\$786M School Improvement November 13, 1998:				
Annual maturities of \$39M to \$188M	May 15, 2013	4.761353	464,246	39,860
			<u>\$ 37,924,246</u>	<u>\$ 1,254,860</u>

The annual requirements to pay principal and interest on long-term bonds outstanding are as follows:

Year Ended June 30	Principal	Interest	Total
2007	\$ 1,254,860	\$ 1,746,031	\$ 3,000,891
2008	1,381,768	1,712,676	3,094,444
2009	1,463,757	1,670,262	3,134,019
2010	1,522,836	1,731,910	3,254,746
2011	1,173,021	1,567,066	2,740,087
2012	1,225,305	1,522,591	2,747,896
2013	1,277,699	1,473,197	2,750,896
2014	1,275,000	1,421,687	2,696,687
2015	1,325,000	1,367,500	2,692,500
2016	1,375,000	1,301,250	2,676,250

SPARTA AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Year Ended June 30	Principal	Interest	Total
2017	\$ 1,425,000	\$ 1,232,500	\$ 2,657,500
2018	1,475,000	1,161,250	2,636,250
2019	1,525,000	1,087,500	2,612,500
2020	1,575,000	1,011,250	2,586,250
2021	1,625,000	932,500	2,557,500
2022	1,675,000	851,250	2,526,250
2023	1,725,000	767,500	2,492,500
2024	1,775,000	681,250	2,456,250
2025	1,825,000	592,500	2,417,500
2026	1,900,000	501,250	2,401,250
2027	1,950,000	406,250	2,356,250
2028	2,025,000	308,750	2,333,750
2029	2,075,000	207,500	2,282,500
2030	2,075,000	103,750	2,178,750
	<u>\$ 37,924,246</u>	<u>\$ 25,359,170</u>	<u>\$ 63,283,416</u>

Note G – Retirement Plan

Substantially all District employees participate in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost sharing, multiple employer defined benefit public employee retirement system governed by the State of Michigan. The District's payroll for employees covered by MPERS for the year ended June 30, 2006 was \$14,600,779. A Basic Plan member may retire at age 55 with 30 or more years of credited service or at age 60 with 10 or more years of credited service. The annual retirement benefit, payable monthly for life, is equal to 1½ percent of a member's final average compensation multiplied by his/her number of years of credited service. Final average compensation is the employee's average salary over the last 5 years of credited service. Vested employees may retire at or after age 55 with 15 years of service and receive reduced retirement benefits.

School districts in the State of Michigan are required to contribute at a rate, annually determined by the State of Michigan, of covered employees' compensation to the MPERS plan. The contribution rate was 14.87% for the fiscal year ending September 30, 2005 and 16.34% for the fiscal year beginning October 1, 2005. The District's contributions to the plan for the fiscal years ended June 30, 2006, 2005 and 2004 were \$2,257,312, \$2,063,002 and \$1,849,332, respectively.

The "actuarial accrued liability" is a standardized disclosure method of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPERS' funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee retirement systems and employers.

The MPERS does not make separate measurements of assets and actuarial accrued liability for individual schools. The actuarial accrued liability at September 30, 2004 (the latest reporting date available expressed as

SPARTA AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

\$ in millions) for the MPSERS as a whole, determined through an actuarial valuation performed as of that date, was \$46,317. The MPSERS' net assets available for benefits on that date were \$38,784 leaving an unfunded pension benefit obligation of \$7,533. Ten year historical trend information showing the MPSERS' progress in accumulating sufficient assets to pay benefits when due is presented in the September 30, 2005 Annual Report of the MPSERS, which may be obtained by contacting the System at P.O. Box 30171, Lansing, Michigan 48909-7671.

The total actuarial accrued liability (expressed as \$ in millions) increased by \$1,548 from September 30, 2003 to September 30, 2004. Not included in the pension benefit obligation above is any future obligation attributable to health, dental and vision insurance benefits which are funded on a cash disbursement basis. With the passage of Act 279 of 1996, making permanent the cash basis financing of health, dental and vision benefits, actuarially calculated liabilities for these benefits are no longer disclosed on the balance sheets.

Prior to January 1, 1990, participating employees could elect coverage under either the noncontributory Basic Plan or the contributory Member Investment Plan (MIP). Effective January 1, 1990, all new employees are automatically enrolled in MIP. Participants in MIP, who receive benefits in addition to those available under the Basic Plan, contribute a percentage of salary. The graduated contribution rate is based on total wages and is calculated at 3% of the first \$5,000; 3.6% of the next \$10,000; and 4.3% of all wages over \$15,000. MIP members may retire at any age with 30 years of service, or at age 60 with 5 years of service, with benefits based on a final average compensation period of 5 years for Basic Plan participants and 3 years for Member Investment Plan participants.

Post-employment benefits for health, dental, and vision insurance are available at retirement through the MPSERS. Retirees contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post-employment health care benefits are included as part of the District's total contribution to the MPSERS as discussed above.

Note H – Risk Management and Benefits

The District is a member of the West Michigan Risk Management Trust, a self-insurance program with districts pooling together to insure property, liability and auto exposure. Premiums from members of the Trust are determined through standard underwriting procedures. The members of the Trust have contributed amounts sufficient to fund individual and aggregate losses up to \$175,000 and \$650,000, respectively, on an annual basis. Excess insurance has been purchased to cover claims exceeding those amounts. A \$1,000 per occurrence deductible for property losses is maintained. The District paid \$104,051 in premiums to the Trust for the year ended June 30, 2006.

The District is also a member of the West Michigan Workers' Compensation Fund, a self-insurance program with districts pooling together to insure workers' compensation and employers' liability exposures. The Fund pays the first \$300,000 of any workers' compensation or employers' liability loss out of a \$1,833,000 loss fund collected from members. Excess insurance has been purchased to cover claims exceeding those amounts. As of June 30, 2006, there were no material pending claims against the District. The District paid \$91,813 in premiums to the Fund for the year ended June 30, 2006.

Health, life and other employee insurance is provided by private insurance carriers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

SPARTA AREA SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Note I – Commitments

On July 4, 2004, the District issued \$34,410,000 of general obligation building and site bonds whose proceeds are being used for land purchases, building renovations and additions and furniture and equipment purchases. At June 30, 2006, unspent balances committed to this construction project totaled approximately \$25,000,000, which are expected to be fully expended by the year ended June 30, 2007.

SUPPLEMENTAL INFORMATION

GENERAL FUND

To account for resources which are traditionally associated with the general operation of the District and not required to be accounted for in another fund.

SPARTA AREA SCHOOLS
General Fund
Comparative Balance Sheet
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Cash equivalents, deposits and investments	\$ 953,679	\$ 1,004,795
Receivables:		
Taxes	22,599	52,450
Accounts	-	1,975
Due from other governmental units	3,724,805	3,774,697
Inventory	<u>4,953</u>	<u>2,408</u>
Total Assets	<u><u>\$ 4,706,036</u></u>	<u><u>\$ 4,836,325</u></u>
 Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 304,097	\$ 273,836
Due to other governmental units	486,158	438,317
Salaries payable	1,107,149	1,187,315
Deferred revenue	<u>81,837</u>	<u>178,740</u>
Total Liabilities	<u>1,979,241</u>	<u>2,078,208</u>
Fund Balances		
Unreserved:		
Undesignated	<u>2,726,795</u>	<u>2,758,117</u>
Total Liabilities and Fund Balances	<u><u>\$ 4,706,036</u></u>	<u><u>\$ 4,836,325</u></u>

SPARTA AREA SCHOOLS
General Fund
Comparative Schedule of Revenues
For the years ended June 30, 2006 and 2005

	2006	2005
Local sources:		
Property taxes:		
Current property taxes	\$ 1,854,168	\$ 1,777,159
Delinquent property taxes	5,643	2,766
Other property taxes	1,285	4,750
Interest on delinquent taxes	4,629	3,474
	1,865,725	1,788,149
Interest earnings:		
Interest on deposits and investments	86,693	56,065
Other local revenue:		
Tuition	13,489	7,309
Community enrichment fees	28,289	20,107
Preschool/childcare fees	282,423	211,595
Drivers education	30,676	28,660
Transportation fees	15,391	14,141
Sale of school property	3,673	2,330
Sale of fuel	23,642	15,695
Rental of school facilities	3,650	5,324
Donations	1,600	7,390
Adult education reimbursement	48,069	39,301
Refunds of expenditures	119,993	33,035
Miscellaneous	15,972	17,262
	586,867	402,149
Total local sources	2,539,285	2,246,363
State sources:		
State aid	18,623,241	18,474,418
School improvement	2,349	2,349
FICA/Retirement reimbursement	45,412	45,412
Other	-	155
Total state sources	18,671,002	18,522,334
Federal sources:		
Title I	136,752	161,730
Title I C - Migrant	77,142	78,905
Title IIA	96,882	89,271
Title II D	3,220	3,420
Title III	73,181	59,237
Title V	1,181	4,135
Adult basic education	94,000	105,000
I.D.E.A. program	611,617	631,008
Medicaid - school based	6,722	3,160
Adult English literacy/civics education	11,900	11,988
Literacy grant	864	-
Homeland security grant	-	2,116
SPSR grant	1,613	-
Drug free schools	10,646	5,332
QAR	41,263	12,908
Total federal sources	1,166,983	1,168,210

(Continued)

SPARTA AREA SCHOOLS
General Fund
Comparative Schedule of Revenues
For the years ended June 30, 2006 and 2005

	2006	2005
Interdistrict sources:		
Special education - county	\$ 1,220,464	\$ 1,167,546
Special education - transportation	259,481	320,678
Special education - tuition	192,984	198,230
Special education - itinerants	62,779	-
Special education - shared costs	62,035	48,358
Durant settlement reimbursements	4,386	12,841
Medicaid fee for service	152,548	41,732
Career preparation	5,667	17,424
Other grants	3,270	4,968
Total interdistrict sources	<u>1,963,614</u>	<u>1,811,777</u>
Total Revenues	<u><u>\$ 24,340,884</u></u>	<u><u>\$ 23,748,684</u></u>

SPARTA AREA SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2006 and 2005

	2006	2005
Current:		
Instruction:		
Basic programs:		
Elementary:		
Salaries	\$ 2,867,249	\$ 2,952,654
Employee benefits	1,350,117	1,284,138
Purchased services	14,286	23,125
Supplies	118,191	83,772
Miscellaneous	2,881	3,266
	<u>4,352,724</u>	<u>4,346,955</u>
Middle school:		
Salaries	2,381,139	2,327,897
Employee benefits	1,010,795	894,119
Purchased services	536	3,474
Supplies	45,623	26,002
New equipment and furniture	-	7,484
	<u>3,438,093</u>	<u>3,258,976</u>
High school:		
Salaries	2,488,296	2,432,974
Employee benefits	1,036,590	926,879
Purchased services	8,615	12,135
Supplies	82,571	69,128
Miscellaneous	1,061	2,052
	<u>3,617,133</u>	<u>3,443,168</u>
Preschool:		
Salaries	99,112	147,605
Employee benefits	50,944	62,537
Purchased services	51	2,815
Supplies	2,351	3,701
Miscellaneous	57	654
	<u>152,515</u>	<u>217,312</u>
Summer school:		
Salaries	38,258	40,438
Employee benefits	8,658	8,292
Supplies	2,110	2,377
	<u>49,026</u>	<u>51,107</u>
Total basic programs	<u>11,609,491</u>	<u>11,317,518</u>
Added needs:		
Special education:		
Salaries	1,983,003	1,976,134
Employee benefits	951,406	865,110
Purchased services	596	483
Supplies	15,094	15,666
Payments to other school districts	136,701	-
	<u>3,086,800</u>	<u>2,857,393</u>

(Continued)

SPARTA AREA SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2006 and 2005

	2006	2005
Compensatory education:		
Salaries	\$ 288,432	\$ 320,710
Employee benefits	136,360	150,889
Purchased services	2,000	740
Supplies	7,980	11,477
	<u>434,772</u>	<u>483,816</u>
Total added needs	3,521,572	3,341,209
Adult education services:		
Basic:		
Salaries	109,547	136,122
Employee benefits	31,346	39,992
Purchased services	10,627	6,722
Supplies	4,794	5,067
	<u>156,314</u>	<u>187,903</u>
Secondary:		
Salaries	40,507	36,891
Employee benefits	34,340	20,190
Purchased services	19,229	20,398
Supplies	2,906	3,976
Miscellaneous	1,261	271
Indirect cost	32,949	24,181
	<u>131,192</u>	<u>105,907</u>
Total adult education services	287,506	293,810
Supporting services:		
Pupil services:		
Guidance services:		
Salaries	439,030	427,990
Employee benefits	177,499	153,445
Purchased services	8,009	17,558
Supplies	24,505	33,673
	<u>649,043</u>	<u>632,666</u>
Health services:		
Salaries	47,921	40,250
Employee benefits	9,911	8,417
Purchased services	451	453
Supplies	1,400	1,724
Payments to other school districts	148,941	-
	<u>208,624</u>	<u>50,844</u>
Psychological services:		
Salaries	-	2,651
Employee benefits	-	526
Purchased services	174	227
Supplies	1,090	2,501
Payments to other school districts	204,051	-
	<u>205,315</u>	<u>5,905</u>

(Continued)

SPARTA AREA SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2006 and 2005

	2006	2005
Speech pathology services:		
Salaries	\$ -	\$ 3,688
Employee benefits	-	738
Purchased services	408	282
Supplies	1,084	899
Payments to other school districts	268,482	-
	<u>269,974</u>	<u>5,607</u>
Social worker services:		
Social workers salaries	-	1,336
Employee benefits	-	210
Purchased services	216	162
Supplies	212	389
Payments to other school districts	392,721	-
	<u>393,149</u>	<u>2,097</u>
Total pupil services	<u>1,726,105</u>	<u>697,119</u>
Instructional staff services:		
Professional staff development:		
Salaries	49,370	24,403
Employee benefits	26,633	18,226
Purchased services	6,708	17,126
Supplies	726	508
Miscellaneous	1,271	2,426
	<u>84,708</u>	<u>62,689</u>
Library:		
Salaries	140,669	155,520
Employee benefits	103,718	103,943
Purchased services	2,339	1,137
Supplies	18,576	21,394
Miscellaneous	-	5,040
	<u>265,302</u>	<u>287,034</u>
Supervision/direction of instruction:		
Salaries	248,578	215,238
Employee benefits	86,017	71,693
Purchased services	6,192	6,911
Supplies	471	710
Capital outlay	1,167	-
Miscellaneous	66	-
	<u>342,491</u>	<u>294,552</u>
Total instructional staff services	<u>692,501</u>	<u>644,275</u>
General administrative services:		
Board of education:		
Salaries	3,930	3,900
Employee benefits	111,578	103,260
Purchased services	66,061	66,526
Supplies	1,306	2,664
Miscellaneous	18,276	19,294
	<u>201,151</u>	<u>195,644</u>

(Continued)

SPARTA AREA SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2006 and 2005

	2006	2005
Executive administration:		
Salaries	\$ 237,605	\$ 321,875
Employee benefits	89,374	112,275
Purchased services	2,699	4,235
Supplies	2,785	2,026
Miscellaneous	1,570	2,440
	<u>334,033</u>	<u>442,851</u>
Total general administrative services	535,184	638,495
School administrative services:		
Office of the principal:		
Salaries	977,372	957,448
Employee benefits	479,166	446,582
Purchased services	12,092	19,996
Office supplies	12,024	21,131
Miscellaneous	2,193	5,096
	<u>1,482,847</u>	<u>1,450,253</u>
Total school administrative services		
Business services:		
Fiscal services:		
Salaries	122,125	92,008
Employee benefits	59,376	44,204
Purchased services	3,015	19,350
Supplies	3,934	2,516
Miscellaneous	10	-
	<u>188,460</u>	<u>158,078</u>
Internal services:		
Purchased services	46,101	-
Supplies	7,289	-
Miscellaneous	4,146	-
	<u>57,536</u>	<u>-</u>
Other business services:		
Purchased services	-	3,351
Miscellaneous	48,019	102,619
	<u>48,019</u>	<u>105,970</u>
Total business services	294,015	264,048
Operation and maintenance services:		
Operation and maintenance:		
Salaries	669,942	678,328
Employee benefits	370,634	352,742
Purchased services	327,233	299,506
Supplies	448,641	441,936
New equipment and furniture	-	13,264
Miscellaneous	808	693
	<u>1,817,258</u>	<u>1,786,469</u>
Total operation and maintenance services		

(Continued)

SPARTA AREA SCHOOLS
General Fund
Comparative Schedule of Expenditures
For the years ended June 30, 2006 and 2005

	2006	2005
Pupil transportation services:		
Pupil transportation:		
Salaries	\$ 581,767	\$ 567,800
Employee benefits	275,545	245,242
Purchased services	36,018	45,200
Supplies	175,466	172,746
New buses	74,918	69,124
Miscellaneous	2,991	3,368
Payments to other school districts	446,140	-
Total pupil transportation services	1,592,845	1,103,480
Central services:		
Technology services:		
Salaries	54,692	51,876
Employee benefits	13,529	7,687
Purchased services	12,470	11,020
Supplies	29,654	51,339
New equipment and furniture	74,402	52,963
Total central services	184,747	174,885
Community services:		
Community recreation:		
Salaries	4,502	3,665
Employee benefits	1,044	783
Supplies	27,758	13,987
	33,304	18,435
Custody/care of children:		
Salaries	163,298	124,424
Employee benefits	37,348	27,476
Supplies	15,037	12,210
Miscellaneous	401	541
	216,084	164,651
Total community services	249,388	183,086
Interdistrict:		
Special education tuition	-	148,036
Special education transportation	-	292,423
Special education services	-	36,204
Special education itinerants	-	909,846
Other	-	20,662
Total interdistrict	-	1,407,171
Total Expenditures	\$ 23,993,459	\$ 23,301,818

NONMAJOR FUNDS

SPARTA AREA SCHOOLS
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2006

	Special Revenue	
	Food Service	Athletics
Assets		
Cash equivalents, deposits and investments	\$ 137,289	\$ 753
Taxes receivable	-	-
Due from other governmental units	5,678	-
Inventory	10,967	-
Total Assets	\$ 153,934	\$ 753
Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 357	\$ 753
Deferred revenue	4,183	-
Total Liabilities	4,540	753
Fund Balances		
Reserved for debt service	-	-
Reserved for capital outlay	-	-
Unreserved:		
Undesignated	149,394	-
Total Fund Balances	149,394	-
Total Liabilities and Fund Balances	\$ 153,934	\$ 753

Debt Service					Capital Projects Building and Site	Total
2000	2001	2003	2005	Durant		
\$ -	\$ -	\$ 72,449	\$ 38,311	\$ -	\$ 275,972	\$ 524,774
-	-	3,751	1,821	-	1,388	6,960
-	-	-	-	-	-	5,678
-	-	-	-	-	-	10,967
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76,200</u>	<u>\$ 40,132</u>	<u>\$ -</u>	<u>\$ 277,360</u>	<u>\$ 548,379</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,110
-	-	3,751	1,821	-	1,388	11,143
-	-	3,751	1,821	-	1,388	12,253
-	-	72,449	38,311	-	-	110,760
-	-	-	-	-	275,972	275,972
-	-	-	-	-	-	149,394
-	-	72,449	38,311	-	275,972	536,126
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 76,200</u>	<u>\$ 40,132</u>	<u>\$ -</u>	<u>\$ 277,360</u>	<u>\$ 548,379</u>

SPARTA AREA SCHOOLS
Combining Schedule of Revenues, Expenditures and Changes in
Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2006

	Special Revenue	
	Food Service	Athletics
Revenues		
Local sources:		
Property taxes	\$ -	\$ -
Interest earnings	5,057	-
Other	-	-
Sales and admissions	422,729	154,899
Total local sources	427,786	154,899
State sources	52,950	-
Federal sources	337,495	-
Total Revenues	818,231	154,899
Expenditures		
Current:		
Food service	781,403	-
Athletics	-	563,646
Capital outlay	-	-
Debt service:		
Principal repayment	-	-
Interest and fiscal charges	-	-
Total Expenditures	781,403	563,646
Excess (Deficiency) of Revenues Over Expenditures	36,828	(408,747)
Other Financing Sources (Uses)		
Transfers in	-	408,747
Transfers out	(30,000)	-
Total Other Financing Sources (Uses)	(30,000)	408,747
Net Change in Fund Balances	6,828	-
Fund Balances, July 1	142,566	-
Fund Balances, June 30	\$ 149,394	\$ -

Debt Service					Capital Projects Building and Site	Total
2000	2001	2003	2005	Durant		
\$ -	\$ -	\$ 830,022	\$ 1,675,845	\$ -	\$ 341,236	\$ 2,847,103
-	-	6,042	5,060	-	8,677	24,836
-	-	6,364	-	-	-	6,364
-	-	-	-	-	-	577,628
-	-	842,428	1,680,905	-	349,913	3,455,931
-	-	-	-	55,212	-	108,162
-	-	-	-	-	-	337,495
-	-	842,428	1,680,905	55,212	349,913	3,901,588
-	-	-	-	-	-	781,403
-	-	-	-	-	-	563,646
-	-	-	-	-	1,478	1,478
115,000	95,000	775,000	170,000	38,057	-	1,193,057
34,126	23,842	80,614	1,631,823	17,155	-	1,787,560
149,126	118,842	855,614	1,801,823	55,212	1,478	4,327,144
(149,126)	(118,842)	(13,186)	(120,918)	-	348,435	(425,556)
149,126	118,842	-	-	-	-	676,715
-	-	-	-	-	(267,968)	(297,968)
149,126	118,842	-	-	-	(267,968)	378,747
-	-	(13,186)	(120,918)	-	80,467	(46,809)
-	-	85,635	159,229	-	195,505	582,935
\$ -	\$ -	\$ 72,449	\$ 38,311	\$ -	\$ 275,972	\$ 536,126

SPARTA AREA SCHOOLS
Food Service Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2006

	2006		Variance - Positive (Negative)
	Budget	Actual	
Revenues			
Local sources:			
Interest earnings	\$ 4,000	\$ 5,057	\$ 1,057
Sales and admissions	422,400	422,729	329
Total local sources	426,400	427,786	1,386
State sources	50,766	52,950	2,184
Federal sources	341,800	337,495	(4,305)
Total Revenues	818,966	818,231	(735)
Expenditures			
Current:			
Food service	785,418	781,403	4,015
Excess of Revenues Over Expenditures	33,548	36,828	3,280
Other Financing Sources (Uses)			
Transfers out	(30,000)	(30,000)	-
Net Change in Fund Balances	3,548	6,828	3,280
Fund Balances, July 1	142,566	142,566	-
Fund Balances, June 30	\$ 146,114	\$ 149,394	\$ 3,280

SPARTA AREA SCHOOLS
Athletics Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2006

	2006		Variance -
	Budget	Actual	Positive (Negative)
Revenues			
Local sources:			
Sales and admissions	\$ 141,023	\$ 154,899	\$ 13,876
Expenditures			
Current:			
Athletics	620,000	563,646	56,354
Excess (Deficiency) of Revenues Over Expenditures	(478,977)	(408,747)	70,230
Other Financing Sources			
Transfers in	478,977	408,747	(70,230)
Net Change in Fund Balances	-	-	-
Fund Balances, July 1	-	-	-
Fund Balances, June 30	\$ -	\$ -	\$ -

SPECIAL REVENUE FUNDS

Food Service—to account for monies received from food service activities and federal subsidies for use in administering the hot lunch program of the District.

Athletics—to account for activity receipts and General Fund contributions used in administering the athletic program of the District.

SPARTA AREA SCHOOLS
Food Service Special Revenue Fund
Comparative Balance Sheet
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Cash equivalents, deposits and investments	\$ 137,289	\$ 129,973
Accounts receivable	-	1,056
Due from other governmental units	5,678	4,800
Inventory	<u>10,967</u>	<u>11,445</u>
Total Assets	<u><u>\$ 153,934</u></u>	<u><u>\$ 147,274</u></u>
 Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 357	\$ 344
Deferred revenue	<u>4,183</u>	<u>4,364</u>
Total Liabilities	<u>4,540</u>	<u>4,708</u>
Fund Balances		
Unreserved:		
Undesignated	<u>149,394</u>	<u>142,566</u>
Total Liabilities and Fund Balances	<u><u>\$ 153,934</u></u>	<u><u>\$ 147,274</u></u>

SPARTA AREA SCHOOLS
Food Service Special Revenue Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2006 and 2005

	2006	2005
Revenues		
Local sources:		
Sales and admissions:		
Children's lunches	\$ 240,448	\$ 222,770
Adult lunches	10,587	10,498
Milk	8,777	8,531
Ala carte	154,594	177,239
Banquets	1,242	3,973
Other	7,081	6,637
	<u>422,729</u>	<u>429,648</u>
Interest earnings:		
Interest on deposits	5,057	2,369
Total local sources	<u>427,786</u>	<u>432,017</u>
State sources	52,950	46,778
Federal sources	<u>337,495</u>	<u>306,062</u>
Total Revenues	<u>818,231</u>	<u>784,857</u>
Expenditures		
Current:		
Food service:		
Salaries:		
Supervisor	55,592	54,032
Food service	9,122	8,476
Drivers	42,528	42,054
Clerical	135,041	132,627
Severance pay	3,408	2,304
Employee benefits:		
Employee insurance	90,601	79,504
Retirement	38,992	34,843
Social Security	18,796	18,321
Workers' compensation insurance	3,168	3,104
Unemployment compensation	303	72
Purchased services	3,031	3,765
Workshops and conferences	959	1,134
Mailing and postage	(61)	457
Waste and trash disposal	-	1,883
Equipment repair and maintenance	6,169	5,650
Food	290,621	295,297
Milk	55,223	50,735
Nonedible supplies	24,461	22,699
Gasoline, oil and grease	1,142	931
Other supplies and materials	1,672	2,864
Miscellaneous	635	2,114
	<u>781,403</u>	<u>762,866</u>
Total Expenditures	<u>781,403</u>	<u>762,866</u>
Excess of Revenues Over Expenditures	<u>36,828</u>	<u>21,991</u>

(Continued)

SPARTA AREA SCHOOLS
Food Service Special Revenue Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Other Financing Sources (Uses)		
Transfers out	\$ (30,000)	\$ (30,000)
Net Change in Fund Balances	6,828	(8,009)
Fund Balances, July 1	<u>142,566</u>	<u>150,575</u>
Fund Balances, June 30	<u><u>\$ 149,394</u></u>	<u><u>\$ 142,566</u></u>

SPARTA AREA SCHOOLS
Athletics Special Revenue Fund
Comparative Balance Sheet
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Cash equivalents, deposits and investments	<u>\$ 753</u>	<u>\$ -</u>
Liabilities and Fund Balances		
Liabilities		
Accounts payable	<u>\$ 753</u>	<u>\$ -</u>
Fund Balances		
Unreserved:		
Undesignated	<u>-</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 753</u>	<u>\$ -</u>

SPARTA AREA SCHOOLS
Athletics Special Revenue Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2006 and 2005

	2006	2005
Revenues		
Local sources:		
Sales and admissions:		
Athletic admissions	\$ 70,337	\$ 74,999
Fees and sales	44,669	2,555
Donations	39,893	30,688
Total Revenues	154,899	108,242
Expenditures		
Current:		
Athletics:		
Salaries:		
Director	73,036	71,957
Coaches	215,207	209,810
Trainer	18,624	17,595
Clerical	24,515	23,982
Maintenance	3,155	-
Employee benefits:		
Employee insurance	27,604	24,003
Retirement	52,130	45,629
Social Security	25,516	24,650
Workers' compensation insurance	1,168	1,004
Unemployment compensation	753	-
Purchased services	1,383	1,200
Officials	33,704	33,878
Workshops and conferences	1,504	2,073
Telephone	1,486	1,745
Mailing and postage	162	-
Equipment repair and maintenance	104	144
Other supplies and materials	61,811	56,612
Dues and fees	13,926	13,309
Miscellaneous	7,858	3,864
Total Expenditures	563,646	531,455
Excess (Deficiency) of Revenues Over Expenditures	(408,747)	(423,213)
Other Financing Sources		
Transfers in	408,747	423,213
Net Change in Fund Balances	-	-
Fund Balances, July 1	-	-
Fund Balances, June 30	\$ -	\$ -

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DEBT SERVICE FUNDS

Debt Service Funds—To accumulate property tax revenues and interest earnings for repayment of the bond issues of the District used to finance new building construction projects.

SPARTA AREA SCHOOLS
Debt Service Funds
Combining Balance Sheet
June 30, 2006

	<u>2000</u>	<u>2001</u>	<u>2003</u>	<u>2004</u>
Assets				
Cash equivalents, deposits and investments	\$ -	\$ -	\$ 72,449	\$ 38,311
Receivables:				
Taxes	<u>-</u>	<u>-</u>	<u>3,751</u>	<u>1,821</u>
Total Assets	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 76,200</u></u>	<u><u>\$ 40,132</u></u>
 Liabilities and Fund Balances				
Liabilities				
Deferred revenue	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,751</u>	<u>\$ 1,821</u>
Fund Balances				
Reserved for debt service	<u>-</u>	<u>-</u>	<u>72,449</u>	<u>38,311</u>
Total Liabilities and Fund Balances	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 76,200</u></u>	<u><u>\$ 40,132</u></u>

Durant	Totals	
	2006	2005
\$ -	\$ 110,760	\$ 244,864
-	5,572	9,685
<u>\$ -</u>	<u>\$ 116,332</u>	<u>\$ 254,549</u>

<u>\$ -</u>	<u>\$ 5,572</u>	<u>\$ 9,685</u>
-	110,760	244,864
<u>\$ -</u>	<u>\$ 116,332</u>	<u>\$ 254,549</u>

SPARTA AREA SCHOOLS
Debt Service Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
For the year ended June 30, 2006

	<u>2000</u>	<u>2001</u>	<u>2003</u>	<u>2004</u>
Revenues				
Local sources:				
Property taxes:				
Current property taxes	\$ -	\$ -	\$ 817,069	\$ 1,649,844
Industrial facilities taxes	-	-	10,698	21,603
Delinquent property taxes	-	-	720	1,310
Interest on delinquent taxes	-	-	1,535	3,088
	<u>-</u>	<u>-</u>	<u>830,022</u>	<u>1,675,845</u>
Interest earnings:				
Interest on deposits and investments	-	-	6,042	5,060
Other local sources:				
Refund of prior years expenditures	-	-	6,364	-
State sources:				
State school aid	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>-</u>	<u>-</u>	<u>842,428</u>	<u>1,680,905</u>
Expenditures				
Debt service:				
Principal repayment	115,000	95,000	775,000	170,000
Interest and fiscal charges:				
Interest expense	34,126	23,842	76,175	1,626,276
Paying agent fees	-	-	500	212
Tax refunds	-	-	3,939	5,335
	<u>-</u>	<u>-</u>	<u>3,939</u>	<u>5,335</u>
Total Expenditures	<u>149,126</u>	<u>118,842</u>	<u>855,614</u>	<u>1,801,823</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(149,126)</u>	<u>(118,842)</u>	<u>(13,186)</u>	<u>(120,918)</u>
Other Financing Sources (Uses)				
Transfers in	149,126	118,842	-	-
Transfers out	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>149,126</u>	<u>118,842</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>-</u>	<u>-</u>	<u>(13,186)</u>	<u>(120,918)</u>
Fund Balances, July 1	<u>-</u>	<u>-</u>	<u>85,635</u>	<u>159,229</u>
Fund Balances, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 72,449</u>	<u>\$ 38,311</u>

Durant	Totals	
	2006	2005
\$ -	\$ 2,466,913	\$ 2,371,565
-	32,301	33,713
-	2,030	530
-	4,623	4,027
-	2,505,867	2,409,835
-	11,102	4,542
-	6,364	-
55,212	55,212	-
55,212	2,578,545	2,414,377
38,057	1,193,057	1,125,000
17,155	1,777,574	1,388,587
-	712	212
-	9,274	15,540
55,212	2,980,617	2,529,339
-	(402,072)	(114,962)
-	267,968	290,746
-	-	(24,768)
-	267,968	265,978
-	(134,104)	151,016
-	244,864	93,848
\$ -	\$ 110,760	\$ 244,864

CAPITAL PROJECTS FUNDS

Building and Site—to account for property tax revenues and interest earnings used to finance building restoration projects.

2004 Construction—to account for bond proceeds used to finance building construction and improvement projects.

SPARTA AREA SCHOOLS
Building and Site Capital Projects Fund
Comparative Balance Sheet
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Cash equivalents, deposits and investments	\$ 275,972	\$ 195,505
Taxes receivable	<u>1,388</u>	<u>3,059</u>
Total Assets	<u><u>\$ 277,360</u></u>	<u><u>\$ 198,564</u></u>
 Liabilities and Fund Balances		
Liabilities		
Deferred revenue	<u>\$ 1,388</u>	<u>\$ 3,059</u>
Fund Balances		
Reserved for capital outlay	<u>275,972</u>	<u>195,505</u>
Total Liabilities and Fund Balances	<u><u>\$ 277,360</u></u>	<u><u>\$ 198,564</u></u>

SPARTA AREA SCHOOLS
Building and Site Capital Projects Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2006 and 2005

	2006	2005
Revenues		
Local sources:		
Property taxes:		
Current property taxes	\$ 335,936	\$ 318,390
Industrial facilities taxes	4,399	4,526
Delinquent property taxes	272	191
Interest on delinquent taxes	629	547
	<u>341,236</u>	<u>323,654</u>
Interest earnings:		
Interest on deposits	<u>8,677</u>	<u>4,713</u>
Other local revenue:		
Miscellaneous	<u>-</u>	<u>100</u>
Total Revenues	<u>349,913</u>	<u>328,467</u>
Expenditures		
Capital outlay:		
Building improvements	-	53,591
Tax refunds	<u>1,478</u>	<u>4,486</u>
Total Expenditures	<u>1,478</u>	<u>58,077</u>
Excess of Revenues Over Expenditures	<u>348,435</u>	<u>270,390</u>
Other Financing Sources (Uses)		
Transfers out	<u>(267,968)</u>	<u>(265,978)</u>
Net Change in Fund Balances	80,467	4,412
Fund Balances, July 1	<u>195,505</u>	<u>191,093</u>
Fund Balances, June 30	<u><u>\$ 275,972</u></u>	<u><u>\$ 195,505</u></u>

SPARTA AREA SCHOOLS
2004 Construction Capital Projects Fund
Comparative Balance Sheet
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Assets		
Cash equivalents, deposits and investments	\$ 24,426,246	\$ 33,846,356
Accrued interest receivable	<u>241,133</u>	<u>324,343</u>
Total Assets	<u><u>\$ 24,667,379</u></u>	<u><u>\$ 34,170,699</u></u>
 Liabilities and Fund Balances		
Liabilities		
Accounts payable	<u>\$ 1,552,114</u>	<u>\$ -</u>
Fund Balances		
Reserved for capital outlay	<u>23,115,265</u>	<u>34,170,699</u>
Total Liabilities and Fund Balance	<u><u>\$ 24,667,379</u></u>	<u><u>\$ 34,170,699</u></u>

SPARTA AREA SCHOOLS
2004 Construction Capital Projects Fund
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances
For the years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Revenues		
Local sources:		
Interest earnings:		
Interest on deposits and investments	\$ 856,855	\$ 486,285
Other local sources:		
Donations	<u>10,000</u>	<u>1,335,000</u>
Total Revenues	<u>866,855</u>	<u>1,821,285</u>
Expenditures		
Capital outlay:		
Purchased services	6,758	2,997
Construction manager	1,002,316	22,500
Legal services	10,082	4,795
Architect services	347,502	1,096,359
Land	88,215	1,344,546
Building improvements	10,467,416	-
Bond issuance costs	-	195,652
Underwriter's discount	<u>-</u>	<u>163,448</u>
Total Expenditures	<u>11,922,289</u>	<u>2,830,297</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(11,055,434)</u>	<u>(1,009,012)</u>
Other Financing Sources		
Bonds issued	-	34,410,000
Bond premium	<u>-</u>	<u>769,711</u>
Total Other Financing Sources	<u>-</u>	<u>35,179,711</u>
Net Change in Fund Balances	(11,055,434)	34,170,699
Fund Balances, July 1	<u>34,170,699</u>	<u>-</u>
Fund Balances, June 30	<u><u>\$ 23,115,265</u></u>	<u><u>\$ 34,170,699</u></u>

AGENCY FUND

Student Activities —to account for the collection and disbursements of monies used by the school activity clubs and groups.

SPARTA AREA SCHOOLS
Student Activities Agency Fund
Statement of Changes in Assets and Liabilities
For the year ended June 30, 2006

	<u>Balances</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2006</u>
Assets				
Cash equivalents, deposits and investments	<u>\$ 407,044</u>	<u>\$ 461,452</u>	<u>\$ 409,122</u>	<u>\$ 459,374</u>
Liabilities				
Due to student groups	<u>\$ 407,044</u>	<u>\$ 461,452</u>	<u>\$ 428,835</u>	<u>\$ 459,374</u>

OTHER INFORMATION

SPARTA AREA SCHOOLS
Summary of 2005 Taxes Levied and Collected
For the year ended June 30, 2006

	Kent County			
	Algoma	Alpine	Sparta	Tyrone
Taxable Valuations				
Operating	\$ 10,091,460	\$ 11,350,144	\$ 77,448,945	\$ 27,189
Debt Service/Building and Site	106,517,702	44,389,901	218,814,730	470,105
Rates (Mills)				
General Fund				
2003 Debt Service Fund				
2004 Debt Service Fund				
Building and Site Fund				
Taxes Levied 2005 Rolls				
General Fund	\$ 181,706	\$ 204,302	\$ 1,394,076	\$ 489
2003 Debt Service Fund	221,552	92,329	455,125	978
2004 Debt Service Fund	447,366	186,434	919,002	1,974
Building and Site Fund	91,092	37,961	187,126	402
	<u>941,716</u>	<u>521,026</u>	<u>2,955,329</u>	<u>3,843</u>
Taxes Uncollected 2005 Rolls				
General Fund	-	90	6,431	-
2003 Debt Service Fund	-	10	743	-
2004 Debt Service Fund	-	21	1,500	-
Building and Site Fund	-	4	306	-
	<u>-</u>	<u>125</u>	<u>8,980</u>	<u>-</u>
Taxes Collected 2005 Rolls				
General Fund	181,706	204,212	1,387,645	489
2003 Debt Service Fund	221,552	92,319	454,382	978
2004 Debt Service Fund	447,366	186,413	917,502	1,974
Building and Site Fund	91,092	37,957	186,820	402
	<u>941,716</u>	<u>520,901</u>	<u>2,946,349</u>	<u>3,843</u>
Delinquent Taxes Collected				
General Fund	-	244	3,802	-
2003 Debt Service Fund	-	31	485	-
2004 Debt Service Fund	-	57	882	-
Building and Site Fund	-	12	183	-
	<u>-</u>	<u>344</u>	<u>5,352</u>	<u>-</u>
Total Taxes Collected				
General Fund	181,706	204,456	1,391,447	489
2003 Debt Service Fund	221,552	92,350	454,867	978
2004 Debt Service Fund	447,366	186,470	918,384	1,974
Building and Site Fund	91,092	37,969	187,003	402
	<u>\$ 941,716</u>	<u>\$ 521,245</u>	<u>\$ 2,951,701</u>	<u>\$ 3,843</u>

(Continued)

Ottawa County		
Chester	Wright	Total
\$ 4,112,100	\$ 356,719	\$ 103,386,557
20,981,664	1,803,856	392,977,958
		18.0000
		2.0800
		4.2000
		0.8552
		25.1352
\$ 74,018	\$ 6,421	\$ 1,861,012
43,643	3,752	817,379
88,119	7,576	1,650,471
17,940	1,543	336,064
223,720	19,292	4,664,926
161	133	6,815
19	15	787
38	31	1,590
8	6	324
226	185	9,516
73,857	6,288	1,854,197
43,624	3,737	816,592
88,081	7,545	1,648,881
17,932	1,537	335,740
223,494	19,107	4,655,410
106	-	4,152
14	-	530
25	-	964
5	-	200
150	-	5,846
73,963	6,288	1,858,349
43,638	3,737	817,122
88,106	7,545	1,649,845
17,937	1,537	335,940
\$ 223,644	\$ 19,107	\$ 4,661,256

SPARTA AREA SCHOOLS
Summary of 2005 Taxes Levied and Collected
For the year ended June 30, 2006

	Kent County			
	Algoma	Alpine	Sparta	Tyrone
Taxes Uncollected – June 30, 2006				
General Fund:				
2005	\$ -	\$ 90	\$ 6,431	\$ -
2004	-	-	825	-
2003	9,715	4,698	379	-
	<u>9,715</u>	<u>4,788</u>	<u>7,635</u>	<u>-</u>
2003 Debt Service Fund:				
2005	-	10	743	-
2004	-	-	105	-
2003	1,865	904	72	-
	<u>1,865</u>	<u>914</u>	<u>920</u>	<u>-</u>
2004 Debt Service Fund:				
2005	-	21	1,500	-
2004	-	-	192	-
	<u>-</u>	<u>21</u>	<u>1,692</u>	<u>-</u>
Building and Site Fund:				
2005	-	4	306	-
2004	-	-	41	-
2003	667	321	25	-
	<u>667</u>	<u>325</u>	<u>372</u>	<u>-</u>
Total Taxes Uncollected	<u><u>\$ 12,247</u></u>	<u><u>\$ 6,048</u></u>	<u><u>\$ 10,619</u></u>	<u><u>\$ -</u></u>

Ottawa County		
Chester	Wright	Total
\$ 161	\$ 133	\$ 6,815
167	-	992
-	-	14,792
328	133	22,599
19	15	787
18	-	123
-	-	2,841
37	15	3,751
38	31	1,590
39	-	231
77	31	1,821
8	6	324
10	-	51
-	-	1,013
18	6	1,388
\$ 460	\$ 185	\$ 29,559

SPARTA AREA SCHOOLS
Kent County, Michigan

Auditor's Report On Compliance
For Federal Grant Programs

For the year ended June 30, 2006

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SPARTA AREA SCHOOLS

For the year ended June 30, 2006

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Hungerford, Aldrin,
Nichols & Carter, P.C.

CPAs AND CONSULTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

August 10, 2006

The Board of Education
Sparta Area Schools
Sparta, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Sparta Area Schools as of and for the year ended June 30, 2006, which collectively comprise Sparta Area School's basic financial statements and have issued our report thereon dated August 10, 2006. We conducted our audit in accordance with auditing standards accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sparta Area School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we considered to be material weaknesses.

The Board of Education
Sparta Area Schools
August 10, 2006

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sparta Area School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hungerford, Aldrin, Nichols & Barten, P.C.

Certified Public Accountants

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

August 10, 2006

The Board of Education
Sparta Area Schools
Sparta, Michigan

Compliance

We have audited the compliance of Sparta Area Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Sparta Area School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Sparta Area School's management. Our responsibility is to express an opinion of Sparta Area School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Sparta Area School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Sparta Area School's compliance with those requirements.

In our opinion, Sparta Area Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

The Board of Education
Sparta Area Schools
August 10, 2006

Internal Control Over Compliance

The management of Sparta Area Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Sparta Area School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sparta Area Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated August 10, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Sparta Area School's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hungerford, Aldrin, Nichols & Austin, P.C.

Certified Public Accountants

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SPARTA AREA SCHOOLS

For the year ended June 30, 2006

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount
U.S. Department of Education		
Passed through Michigan Department of Education (MDE):		
Title I:	84.010	
0615300506		<u>\$136,752</u>
Title I – Migrant:	84.011	
06189000506		<u>77,142</u>
Title II A:	84.367	
0505200405		91,811
0605200506		<u>92,733</u>
Total Title IIA		<u>184,544</u>
Title II D:	84.318	
0542900405		4,089
0642900506		<u>2,551</u>
Total Title II D		<u>6,640</u>
Title III LAP:	84.365	
065800506		<u>73,181</u>
Title V:	84.298	
0602500506		<u>1,181</u>
English Literacy/Civics Education:	84.002	
061120 6500085		<u>11,900</u>
Adult Education:	84.002	
051130 610066		10,000
061130 610066		<u>84,000</u>
Total Adult Education		<u>94,000</u>
State Plan Self Review:	84.027	
060440		<u>4,400</u>
Total Passed Through MDE		<u>589,740</u>

(Continued)

Accrued (Deferred) Revenue July 1, 2005	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2006
	\$160,885	\$136,752	\$136,752	
	78,905	77,142	77,142	
\$6,782	87,662	4,149 92,733	10,931 88,740	\$3,993
6,782	87,662	96,882	99,671	3,993
(669)	3,420	669 2,551	2,551	
(669)	3,420	3,220	2,551	—
	59,036	73,181	73,181	
	1,786	1,181	1,181	
	11,988	11,900	11,900	
	105,000	10,000 84,000	10,000 84,000	
—	105,000	94,000	94,000	—
		1,613	4,400	(2,787)
6,113	508,682	495,871	500,778	1,206

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**SPARTA AREA SCHOOLS**

For the year ended June 30, 2006

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount
Passed through Marquette-Alger School District:		
State Program Improvement Grant:	84.323A	
050620 03001		\$10,462
050620 03001		15,801
050620 03001		15,000
		<hr/>
Total State Program Improvement Grant		41,263
		<hr/>
Passed through Kent Intermediate School District (KISD):		
Safe and Drug Free Schools and Communities Act:	84.186	
2004-05 Program		5,332
2005-06 Program		13,373
		<hr/>
Total Safe Drug Free Schools and Communities Act		18,705
		<hr/>
Special Education Cluster:		
I.D.E.A. – Flow Through:	84.027	
Flow Through – 0504500405		604,588
Flow Through – 0604500506		588,405
		<hr/>
Total I.D.E.A. – Flow Through		1,192,993
		<hr/>
I.D.E.A. – Preschool:	84.173	
Preschool – 0604600506		23,212
		<hr/>
Total Special Education Cluster		1,216,205
		<hr/>
Total Passed Through Intermediate School District		1,234,910
		<hr/>
Total U.S. Department of Education		1,865,913
		<hr/>
U.S. Department of Health and Human Services		
Passed through Kent Intermediate School District (KISD):		
Early Childhood Services	93.577	864
		<hr/>
School Based Medicaid	93.778	6,722
		<hr/>
Total U.S. Department of Health and Human Services		7,586
		<hr/>

(Continued)

Accrued (Deferred) Revenue July 1, 2005	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2006
\$2,908	\$2,908	\$10,462 15,801 15,000	\$13,370 15,801	\$15,000
2,908	2,908	41,263	29,171	15,000
765	2,567	10,646	765 10,646	
765	2,567	10,646	11,411	—
149,570	604,588	588,405	149,570 588,405	
149,570	604,588	588,405	737,975	—
	25,712	23,212	23,212	
149,570	630,300	611,617	761,187	—
150,335	632,867	622,263	772,598	—
159,356	1,144,457	1,159,397	1,302,547	16,206
		864	864	
	3,160	6,722	6,722	
—	3,160	7,586	7,586	—

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**SPARTA AREA SCHOOLS**

For the year ended June 30, 2006

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount
U.S. Department of Agriculture Nutrition Cluster		
Passed Through Michigan Department of Education (MDE):		
National School Lunch Program:		
Lunches:		
Section 4 – Total Servings – 1950	10.555	\$51,602
Section 11 – Free and Reduced – 1960		187,048
Total Lunches		238,650
Breakfast:		
Total Servings – 1970	10.553	13,719
Free and Reduced – 1970		47,920
Total Breakfast		61,639
USDA Commodities:		
Bonus Commodities	10.550	871
Entitlement Commodities		36,335
Total USDA Commodities		37,206
Total U.S. Department of Agriculture (Passed Through MDE)		337,495
Total Federal Financial Assistance		\$2,210,994

- Notes: 1. This schedule was prepared using accounting policies consistent with those used in preparing the Basic Financial Statements.
2. The amounts reported on the R7120, Grant Section Auditors Report, reconcile with this schedule.
3. The amounts reported on the Recipient Entitlement Balance Sheet, or PAL Report, agree with this schedule for USDA donated food commodities.

Accrued (Deferred) Revenue July 1, 2005	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2006
	\$48,801	\$51,602	\$51,602	
	169,934	187,048	187,048	
—	218,735	238,650	238,650	—
	13,226	13,719	13,719	
	38,874	47,920	47,920	
—	52,100	61,639	61,639	—
	7,634	871	871	
	27,593	36,335	36,335	
—	35,227	37,206	37,206	—
—	306,062	337,495	337,495	—
\$159,356	\$1,453,679	\$1,504,478	\$1,647,628	\$16,206

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SPARTA AREA SCHOOLS

For the year ended June 30, 2006

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors’ report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not
considered to be material weakness(es)? _____ Yes X None reported
- Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified: _____ Yes X No
- Reportable condition(s) identified that are not
considered to be material weakness(es)? _____ Yes X None reported

Type of auditor’s report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

_____ Yes X No

Identification of major programs audited:

I.D.E.A. Cluster:

84.027 Flow Through

84.173 Preschool

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

SPARTA AREA SCHOOLS

For the year ended June 30, 2006

Section I – Summary of Auditor's Results (Continued)

Federal Awards (Continued)

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

 X Yes No

Section II – Financial Statement Findings

No matters reported.

Section III – Federal Award Findings and Questioned Costs

No matters reported.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SPARTA AREA SCHOOLS

For the year ended June 30, 2006

Note A – Federal Income Reconciliation

	Grant Expenditures Per Schedule of Federal Financial Assistance	Federal Revenue Per Financial Statements	Difference
Title I	\$136,752	\$136,752	
Title I - Migrant	77,142	77,142	
Title IIA	96,882	96,882	
Title IID	3,220	3,220	
Title III	73,181	73,181	
Title V	1,181	1,181	
English Literacy/Civics Education	11,900	11,900	
Adult Basic Education	94,000	94,000	
State Program Improvement	41,263	41,263	
Safe and Drug Free Schools and Communities Act	10,646	10,646	
State Plan Self Review	1,613	1,613	
I.D.E.A.	611,617	611,617	
Early Childhood Services	864	864	
School Based Medicaid	6,722	6,722	
Nutrition Cluster	337,495	337,495	
	\$1,504,478	\$1,504,478	—

Hungerford, Aldrin,
Nichols & Carter, P.C.

C P A s A N D C O N S U L T A N T S

August 10, 2006

The Board of Education
Sparta Area Schools

The following comments pertain to our audit of the financial records of Sparta Area Schools as of and for the year ended June 30, 2006. The comments are made in accordance with Statement on Auditing Standards No. 61 "Communication With Audit Committees" which requires that in certain audits, certain matters are to be communicated to those who have responsibility for oversight of the financial reporting process. The communications required by this statement, if pertinent to the examination, are as follows:

1. Auditor's Responsibility Under Generally Accepted Auditing Standards.
2. Significant Accounting Policies.
3. Management Judgments and Accounting Estimates.
4. Significant Audit Adjustments.
5. Other Information in Documents Containing Audited Financial Statements.
6. Disagreements With Management.
7. Consultation With Other Accountants.
8. Major Issues Discussed With Management Prior to Retention.
9. Difficulties Encountered in Performing the Audit.
10. Uncorrected Misstatements (Passed Audit Adjustments).

The communications specified by this Statement are incidental to the audit and are not required to occur before, nor do they affect, our auditor's report on the District's financial statements.

The following are the matters to be communicated by SAS No. 61 based on our observations during the course of our audit of the financial statements and our review and evaluation of the internal control system of Sparta Area Schools:

Auditors Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Sparta Area School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Sparta Area School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Sparta Area School's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Sparta Area School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Sparta Area School's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Sparta Area Schools are described in Note A to the financial statements.

Difficulties Encountered In Performing The Audit

We encountered no significant difficulties in performing the audit of the financial statements of Sparta Area Schools for the year ended June 30, 2006. We found the internal control structure and accounting system to be basically adequate and operating in the manner intended.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. During the course of our audit the following adjustments of a significant nature were made to the accounting records of the District to bring the balances to those presented in the financial statements:

General Fund

1. \$32,514 and 2,663 to reverse and accrue prior and current year delinquent personal property taxes receivable.

Proposed Audit Adjustments

There were no material adjustments proposed during the audit not recorded by Sparta Area Schools.

Suggestions And Recommendations

We offered suggestions and recommendations regarding the day-to-day operations of the accounting system of Sparta Area Schools to the Accounting Supervisor and accounting personnel as the topics arose during the course of our audit fieldwork. Hopefully, these suggestions will ease the day-to-day operations of the business office and assist in more efficient monthly and year-end financial record keeping and reporting.

Other Comments

The General Fund balance of the District decreased by \$31,322 to \$2,726,795 at June 30, 2006. This balance represents approximately 10.9 percent of the District's 2006-07 expenditure budget. Maintaining a fund balance of at least 10 to 20 percent of the ensuing year's expenditure budget is advisable for Sparta Area Schools. This gives the District more stable operating funds during the year, helps avoid or reduce the necessity of borrowing for short-term cash flow purposes and acts as a buffer against the uncertainty of state aid revenues accruing to the District. In addition, employee benefit costs are expected to increase significantly in the next few years, which will require the use of fund balance reserves considering the expectation of small (or no) growth in state aid revenues.

Other Comments (Continued)

Our audit this year was again completed under the requirements of Statement on Auditing Standards No. 99 "Consideration of Fraud in a Financial Statement Audit" (SAS No. 99), which requires both auditors and their clients to more directly and openly assess those areas within a school district that might be susceptible to fraudulent activity, which would normally include those areas outside the central office that handle cash, inventory, supplies, etc. This is an important audit standard that requires increased face-to-face discussions/interviews with client personnel and extensive documentation of our findings for future reference. We found that Sparta Area Schools has a very extensive network of internal controls within its accounting and record keeping system, and found those tested this year to be operating in the manner intended. Working with District business office personnel, we will be testing other control areas each year as a part of our audit, with suggestions and recommendations to follow the testing each year, to assist the District in maintaining and improving its systems.

This communication is intended solely for the information and use of the Sparta Area Schools Board of Education, administration and others within the organization. We have furnished a copy of this letter to the Michigan Department of Education as an enclosure with the audit report as required by the State of Michigan.

We appreciate the opportunity to provide financial auditing and advisory services to Sparta Area Schools and hope to continue to do so in the future. We also appreciate the dedication and cooperation of the District's administration and accounting personnel in performing their functions and in assisting us in completing ours. If there are any questions regarding the audit report, or the attached communications, we will be happy to address them.

Hungerford, Aldrin, Nichols & Berton, P.C.

Certified Public Accountants